

Message Text

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AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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TAGS: BEXP, EINV, ESCI, BR

SUBJ: BRAZIL'S MINICOMPUTER MANUFACTURING PLANS

REF: BRASILIA 3653

FOLLOWING TELEGRAM PREPARED BY AMCONSUL RIO DE JANEIRO

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1. CONCENTRATED GOB EFFORT TO DECIDE WHETHER TO ACCEPT IBM PROPOSAL TO MANUFACTURE MINICOMPUTERS HAS NOW LED TO OFFER TO CONSIDER PROPOSALS BY ANY DOMESTIC OR FOREIGN FIRM INTERESTED IN SUCH PRODUCTION. JUNE 1 RESOLUTION BY GOB'S COORDINATING COMMISSION FOR ELECTRONIC PROCESSING ACTIVITIES (CAPRE) CALLS FOR PROPOSALS WITHIN 90 DAYS AND STATES THAT, GIVEN LIMITED SIZE OF BRAZILIAN MARKET, NO MORE THAN TWO NEW VENTURES WILL BE APPROVED (IN ADDITION TO ALREADY-OPERATING COBRA-SYCOR VENTURE). CAPRE RESOLUTION MENTIONS FIVE CRITERIA UNDER WHICH PROPOSALS WILL BE JUDGED: TECHNOLOGY "OPENNESS" (PRESUMABLY, COMPLIANCE WITH NORMATIVE ACT 15 ON "FULL TRANSFER" AFTER FIVE YEARS), NATIONAL CONTENT, FIRM'S PARTICIPATION IN BRAZILIAN DOMESTIC

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MARKET, BRAZILIAN CAPITAL PARTICIPATION, AND FOREIGN-EXCHANGE IMPACT (INCLUDING POSSIBLE EXPORT PLANS). THOUGH LOCAL PRESS HAS MISINTERPRETED DOMESTIC-CAPITAL CRITERION AS "REQUIREMENT", INDUSTRY SOURCES CONFIRM CAPRE'S INTENTION THAT IT SIMPLY MEANS THAT SUCH PARTICIPATION WOULD MAKE GIVEN PROPOSAL MORE ATTRACTIVE.

2. THIS CAPRE DECISION, THOUGH PARTLY A WAY OF BUYING TIME (GIVEN RELUCTANCE TO DECIDE ON IBM PROPOSAL), REPRESENTS A MAJOR OPPORTUNITY FOR AMERICAN FIRMS INTERESTED IN THE BRAZILIAN COMPUTER MARKET. THOUGH MANY FIRMS ARE ALREADY REPRESENTED IN BRAZIL AND WILL HAVE BEEN IN CONTACT ALREADY WITH THEIR HOME OFFICES, USDOC MAY WISH TO COMMUNICATE THE NATURE OF THE CAPRE DECISION TO US INDUSTRY. THE DECISION TO PERMIT TWO ADDITIONAL FIRMS IS SIGNIFICANT, SINCE THE GOB-OWNED COBRA FIRM AND VARIOUS GOB AGENCIES HAD OPPOSED ADDITIONAL MANUFACTURERS SINCE IT MIGHT LEAD TO "FRAGMENTATION" OF THE BRAZILIAN MARKET. THE COUNTER-ARGUMENT -- THAT COMPETITION WAS THE ONLY HOPE FOR BRAZIL TO DEVELOP A WORLD-LEVEL COMPUTER INDUSTRY -- HAS APPARENTLY BEEN PERSUASIVE. WE ARE OBTAINING CAPRE PROPOSAL GUIDELINES AND WILL FORWARD BY AIRGRAM.

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3. REFTTEL REPORTS APRIL 25 DISCUSSION OF IBM PROPOSAL WITH VICTOR SIBER, SENIOR AMERICAN IBM OFFICIAL IN BRAZIL. CON GEN RIO E/C CHIEF AGAIN DISCUSSED SITUATION WITH SIBER JUNE 3 TO SEE HOW CAPRE ACTION AFFECTED THEIR PLANS. SIBER SAID HE WAS DISCOURAGED BY THIS DEVELOPMENT, THOUGH ADMITTING THAT CAPRE "HAD DONE THE INTELLIGENT THING, FROM THE POLITICAL POINT OF VIEW." THE GOB FELT ITSELF TRAPPED BETWEEN NATIONALIST FORCES UNWILLING TO SEE IBM DOMINATE THE BRAZILIAN COMPUTER-MANUFACTURING INDUSTRY AND THE GOB'S OWN LONG-STANDING COMMITMENT TO LIBERAL FOREIGN INVESTMENT POLICIES. SIBER SAID THAT LIMITED OFFICIAL USE

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EARLIER CAPRE CONSIDERATION OF IBM PROPOSAL HAD AN AD-HOC QUALITY (AND ANY YES-OR-NO DECISION COULD CONSEQUENTLY BE CRITICIZED FOR LACK OF OBJECTIVITY), BUT THIS NEW APPROACH HAS "THE APPEARANCE OF PROPER ADMINISTRATIVE PROCESS" -- AND COULD SERVE TO LEGITIMIZE AN EVENTUAL DECISION.

4. SIBER FELT THAT THE CAPRE INVITATION COULD RESULT IN A GREAT NUMBER OF PROPOSALS, FROM BOTH SMALL AND LARGE COMPUTER PRODUCERS. THE RESULTING DIFFICULTIES IN EVALUATION AND EVENTUAL NEGOTIATIONS COULD COMPLICATE AN EVENTUAL DECISION. INDEED, IT WAS OBVIOUS THAT CAPRE'S MAIN ACTIVITY IN THE SEVERAL YEARS OF ITS EXISTENCE HAS BEEN PROCRASTINATION. SUCH DELAY IN PART REFLECTS NERVOUSNESS THAT COMMITMENT TO CERTAIN STATES OF THE ART COULD RESULT IN THE EXPENSIVE ACQUISITION OF AN OBSOLESCENT DESIGN OR ASSOCIATION WITH A PRODUCER WITHOUT AN ADEQUATE FOLLOW-ON LINE. CAPRE HAS PROCRASTINATED KNOWING THAT THE LARGE PRODUCERS HAVE THE DESIRED TECHNOLOGICAL STABILITY BUT THAT THE SMALLER FIRMS ARE HUNGRIER AND EASIER FOR A COUNTRY LIKE BRAZIL TO CONTROL. SIBER SAID IBM HAD BEEN

PUSHING ITS PROPOSAL FOR NINE MONTHS, AND THAT MUCH MORE DELAY
COULD FORCE THE FIRM TO PUT ITS SYSTEM-32 PRODUCTION ELSEWHERE.
(IT IS PRESENTLY NOT PRODUCED OUTSIDE THE US). THUS, CAPRE
COULD WIND UP FORCING A NEGATIVE DECISION IF ITS DELIBERATIONS
ON THE PACKAGE PRESENTED BY SEPTEMBER TAKE VERY LONG. INDEED,
SIBER COMMENTED, THIS MAY HAVE BEEN A CONSIDERATION IN CAPRE'S
JUNE 1 DECISION: AVOIDING AN OUTRIGHT "NO" TO IBM WOULD
CONSERVE THE APPEARANCE OF THE GOB'S OPEN FORE BN INVESTMENT
POLICY. DESPITE THE "POOR VIBES", NONETHELESS, IBM WOULD
PROBABLY SUBMIT ITS PROPOSAL UNDER THE NEW PROCEDURE. HE WAS
NOT PARTICULARLY DISCOURAGED BY THE DOMESTIC CAPITAL CRITERION
(PARA 1 ABOVE), BELIEVING ALL LARGER MANUFACTURERS WOULD NOT
GO ALONG WITH JOINT VENTURES.

5. AS WITH REFTTEL, ALL RECIPIENTS PLEASE NOTE EXTREME
SENSITIVITY OF PROPRIETARY INFORMATION CONTAINED IN THIS
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